

**§ 58-62-36. Powers and duties of the Association.**

(a) If a member insurer is an impaired insurer, the Association may, in its discretion, and subject to any conditions imposed by the Association and approved by the Commissioner that do not impair the contractual obligations of the impaired insurer:

- (1) Guarantee, assume, reissue, or reinsure, or cause to be guaranteed, assumed, reissued, or reinsured, any or all of the policies or contracts of the impaired insurer.
- (2) Provide such monies, pledges, loans, notes, guarantees, or other means as are proper to carry out subdivision (1) of this subsection and assure payment of the contractual obligations of the impaired insurer pending action under subdivision (1) of this subsection.
- (3) Repealed by Session Laws 2018-120, s. 1.1(d), effective June 28, 2018.

(b), (c) Repealed by Session Laws 2013-136, s. 2, effective July 1, 2013.

(d) If a member insurer is an insolvent insurer, the Association shall, in its discretion, either:

- (1) Guarantee, assume, reissue, or reinsure, or cause to be guaranteed, assumed, or reinsured, the policies or contracts of the insolvent insurer, or assure payment of the contractual obligations of the insolvent insurer, and provide such monies, pledges, loans, notes, guarantees, or other means as are reasonably necessary to discharge the Association's duties.
- (2) through (4) Repealed by Session Laws 2018-120, s. 1.1(d), effective June 28, 2018.
- (5) Provide benefits and coverages in accordance with the following provisions:
  - a. With respect to policies and contracts, assure payment of benefits that would have been payable under the policies or contracts of the insolvent insurer, for claims incurred:
    1. With respect to group policies and contracts, not later than the earlier of the next renewal date under the policies or contracts or 45 days, but in no event less than 30 days after the date on which the Association becomes obligated with respect to the policies and contracts.
    2. With respect to nongroup policies, contracts, and annuities, not later than the earlier of the next renewal date, if any, under the policies or contracts or one year, but in no event less than 30 days from the date on which the Association becomes obligated with respect to the policies or contracts.
  - b. Make diligent efforts to provide all known insureds, enrollees, or, in the case of nongroup policies and contracts, annuitants, or group policy or contract owners with respect to group policies and contracts 30 days' notice of the termination of the benefits provided.
  - c. With respect to nongroup policies and contracts covered by the Association, make available to each known insured, enrollee, or annuitant, or owner if other than the insured, enrollee, or annuitant, and with respect to an individual formerly an insured, enrollee, or annuitant under a group policy or contract who is not eligible for replacement group coverage, make available substitute coverage on an individual basis in accordance with the provisions of sub-subdivision d. of this subdivision, if the insureds, enrollees, or annuitants had a right under law or the terminated policy, contract, or annuity to convert coverage to individual coverage or to continue an individual policy,

contract, or annuity in force until a specified age or for a specified time, during which the insurer or health maintenance organization had no right unilaterally to make changes in any provision of the policy, contract, or annuity or had a right only to make changes in premium by class.

- d. In providing the substitute coverage required under sub-subdivision c. of this subdivision, the Association may offer either to reissue the terminated coverage or to issue an alternative policy or contract at actuarially justified rates, subject to the prior approval of the Commissioner. Alternative or reissued policies or contracts shall be offered without requiring evidence of insurability and shall not provide for any waiting period or exclusion that would not have applied under the terminated policy or contract. The Association may reinsure any alternative or reissued policy or contract.
- e. Alternative policies or contracts adopted by the Association are subject to the Commissioner's approval. The Association may adopt alternative policies or contracts of various types for future issuance without regard to any particular delinquency. Alternative policies or contracts shall contain at least the minimum statutory provisions required in this State and provide benefits that are not unreasonable in relation to the premium charged. The Association shall set the premium in accordance with a table of rates, which it shall adopt. The premium shall reflect the amount of insurance or coverage to be provided and the age and class of risk of each insured or enrollee but shall not reflect any changes in the health of the insured or enrollee after the original policy or contract was last underwritten. Any alternative policy or contract issued by the Association shall provide coverage of a type similar to that of the policy or contract issued by the delinquent insurer, as determined by the Association.
- f. If the Association elects to reissue terminated coverage at a premium rate different from that charged under the terminated policy or contract, the premium shall be actuarially justified and set by the Association in accordance with the amount of insurance or coverage provided and the age and class of risk, subject to the prior approval of the Commissioner.
- g. The Association's obligations with respect to coverage under any policy or contract of the delinquent insurer or under any reissued or alternative policy or contract shall cease on the date the coverage or policy or contract is replaced by another similar policy or contract by the policy or contract owner, the insured, the enrollee, or the Association.
- h. When proceeding under subdivision (5) of this subsection with respect to any policy or contract carrying guaranteed minimum interest rates, the Association shall assure the payment or crediting of a rate of interest consistent with G.S. 58-62-21(c)(3).

(d1) In carrying out its duties in connection with guaranteeing, assuming, reissuing, or reinsuring policies or contracts under subsections (a) and (d) of this section, the Association may issue substitute coverage for a policy or contract that provides an interest rate, crediting rate, or similar factor determined by use of an index or other external reference stated in the policy or

contract employed in calculating returns or changes in value by issuing an alternative policy or contract in accordance with all of the following provisions:

- (1) In lieu of the index or other external reference provided for in the original policy or contract, the alternative policy or contract provides for (i) a fixed interest rate, (ii) payment of dividends with minimum guarantees, or (iii) a different method for calculating interest or changes in value.
  - (2) There is no requirement for evidence of insurability, waiting period, or other exclusion that would not have applied under the replaced policy or contract.
  - (3) The alternative policy or contract is substantially similar to the replaced policy or contract in all other material terms.
- (e) through (j) Repealed by Session Laws 2018-120, s. 1.1(d), effective June 28, 2018.
- (k) Nonpayment of premiums within 31 days after the date required under the terms of any guaranteed, assumed, alternative, or reissued policy, contract, or substitute coverage terminates the Association's obligations under the policy, contract, or coverage under this Article with respect to the policy, contract, or coverage, except with respect to any claims incurred or any net cash surrender value that may be due under this Article.
- (l) Premiums due for coverage after an entry of an order of liquidation of an insolvent insurer belong to and are payable at the direction of the Association. If the liquidator of an insolvent insurer requests, the Association shall provide a report to the liquidator regarding such premium collected by the Association. The Association is liable for unearned premiums due to policy or contract owners arising after the entry of the order.
- (m) The protection provided by this Article does not apply where any similar guaranty protection is provided to residents of this State by the laws of the domiciliary state or jurisdiction of a delinquent foreign or alien member insurer.
- (n) In carrying out its duties under subsection (d) of this section, the Association may, subject to approval by a court in this State:
- (1) Impose permanent policy or contract liens in connection with any guarantee, assumption, or reinsurance agreement, if the Association finds that the amounts that can be assessed under this Article are less than the amounts needed to assure full and prompt performance of the Association's duties under this Article, or that the economic or financial conditions as they affect member insurers are sufficiently adverse to render the imposition of the permanent policy or contract liens to be in the public interest.
  - (2) Impose temporary moratoria or liens on payments of cash values and policy loans, or any other right to withdraw funds held in conjunction with policies or contracts, in addition to any contractual provisions for deferral of cash or policy loan value. In addition, in the event of a temporary moratorium or moratorium charge imposed by the court on payment of cash values or policy loans, or on any other right to withdraw funds held in conjunction with policies or contracts, out of the assets of the delinquent insurer, the Association may defer the payment of cash values, policy loans, or other rights by the Association for the period of the moratorium or moratorium charge imposed by the court, except for claims covered by the Association to be paid in accordance with a hardship procedure established by the liquidator or rehabilitator and approved by the receivership court.
- (o) If the Association fails to act within a reasonable period of time as provided in subsection (d) of this section, the Commissioner has the powers and duties of the Association under this Article with respect to delinquent insurers.

(p) The Association may render assistance and advice to the Commissioner, upon the Commissioner's request concerning rehabilitation, payment of claims, continuance of coverage, or the performance of other contractual obligations of any delinquent insurer.

(q) The Association has standing to appear or intervene before any court or agency in this State with jurisdiction over a delinquent insurer for which the Association is or may become obligated under this Article or with jurisdiction over any person or property against which the Association may have rights through subrogation or otherwise. This standing extends to all matters germane to the powers and duties of the Association, including, but not limited to, proposals for reinsuring, reissuing, modifying, or guaranteeing the policies or contracts of the delinquent insurer and the determination of the policies or contracts and contractual obligations. The Association also has the right to appear or intervene before a court or agency in another state with jurisdiction over a delinquent insurer for which the Association is or may become obligated or with jurisdiction over any person or property against whom the Association may have rights through subrogation or otherwise.

(r) Any person receiving benefits under this Article is considered to have assigned the rights under, and any causes of action against any person for losses arising under, resulting, from or otherwise relating to, the covered policy or contract to the Association to the extent of the benefits received because of this Article, whether the benefits are payments of or on account of contractual obligations, continuation of coverage, or provision of substitute or alternative policies, contracts, or coverages. The Association may require an assignment to it of such rights and cause of action by any enrollee, payee, policy or contract owner, beneficiary, insured or annuitant as a condition precedent to the receipt of any right or benefits conferred by this Article upon the person. The subrogation rights of the Association under this subsection have the same priority against the delinquent insurer's assets as that possessed by the person entitled to receive benefits under this Article. In addition to other provisions of this subsection, the Association has all common-law rights of subrogation and any other equitable or legal remedy that would have been available to the delinquent insurer or owner, beneficiary, enrollee, or payee of a policy or contract with respect to the policy or contracts, including in the case of a structured settlement annuity, any rights of the owner, beneficiary, or payee of the annuity, to the extent of benefits received pursuant to this Article, against a person originally or by succession responsible for the losses arising from the personal injury relating to the annuity or payment therefore, excepting any such person responsible solely by reason of serving as an assignee in respect of a qualified assignment under Internal Revenue Code Section 130. If the provisions of this subsection are invalid or ineffective with respect to any person or claim for any reason, the amount payable by the Association with respect to the related covered obligations shall be reduced by the amount realized by any other person with respect to the person or claim that is attributable to the policies or contracts or portion thereof covered by the Association. If the Association has provided benefits with respect to a covered obligation and a person recovers amounts as to which the Association has rights as described in this subsection, the person shall pay to the Association the portion of the recovery attributable to the policies or contracts or portion thereof covered by the Association.

(s) In addition to the rights and powers elsewhere in this Article, the Association may do all of the following:

- (1) Enter into contracts that are necessary or proper to carry out the provisions and purposes of this Article.
- (2) Sue or be sued, including taking any legal actions necessary or proper to recover any unpaid assessments under G.S. 58-62-41 and to settle claims or potential claims against it.
- (3) Borrow money to effect the purposes of this Article; any notes or other evidence of indebtedness of the Association not in default shall be legal

investments for domestic member insurers and may be carried as admitted assets.

- (4) Employ or retain persons that are necessary to handle the financial transactions of the Association, and to perform other functions that become necessary or proper under this Article.
  - (5) Take legal action that may be necessary to avoid or recover payment of improper claims.
  - (6) Exercise, for the purposes of this Article and to the extent approved by the Commissioner, the powers of a domestic life insurer, health insurer, or health maintenance organization, but in no case may the Association issue policies or contracts other than those issued to perform its obligations under this Article.
  - (7) Organize itself as a corporation or in other legal form permitted by the laws of this State.
  - (8) Request information from a person seeking coverage from the Association in order to aid the Association in determining its obligations under this Article with respect to the person, and the person shall promptly comply with the request.
  - (9) Unless prohibited by law, in accordance with the terms and conditions of the policy or contract, file for actuarially justified rate or premium increases for any policy or contract for which it provides coverage under this Article.
  - (10) Take other necessary or appropriate action to discharge its duties and obligations under this Article or to exercise its powers under this Article.
- (t) The Association may join an organization of one or more other state associations of similar purposes, in order to further the purposes of this Article and administer the powers and duties of the Association.
- (u) Reinsurance Contracts.
- (1) At any time within 180 days of the date of the order of liquidation, the Association may elect to succeed to the rights and obligations of the ceding member insurer that relate to policies, contracts, or annuities covered, in whole or in part, by the Association in each case under any one or more reinsurance contracts entered into by the insolvent insurer and its reinsurers and selected by the Association. Any such assumption shall be effective as of the date of the order of liquidation. The election shall be effected by the Association or the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) on its behalf sending written notice, return receipt requested, to the affected reinsurers.
  - (2) To facilitate the earliest practicable decision about whether to assume any of the contracts of reinsurance, and in order to protect the financial position of the estate, the receiver and each reinsurer of the ceding member insurer shall make available upon request to the Association or to NOLHGA on its behalf as soon as possible after commencement of formal delinquency proceedings (i) copies of in-force contracts of reinsurance and all related files and records relevant to the determination of whether such contracts should be assumed and (ii) notices of any defaults under the reinsurance contracts or any known event or condition which with the passage of time could become a default under the reinsurance contracts.
  - (3) The following shall apply to reinsurance contracts so assumed by the Association:

- a. The Association shall be responsible for all unpaid premiums due under the reinsurance contracts for periods both before and after the date of the order of liquidation, and shall be responsible for the performance of all other obligations to be performed after the date of the order of liquidation in each case which relate to policies, contracts, or annuities covered, in whole or in part, by the Association. The Association may charge policies, contracts, or annuities covered in part by the Association, through reasonable allocation methods, the costs for reinsurance in excess of the obligations of the Association and shall provide notice and an accounting of these charges to the liquidator.
- b. The Association shall be entitled to any amounts payable by the reinsurer under the reinsurance contracts with respect to losses or events that occur in periods after the date of the order of liquidation and that relate to policies, contracts, or annuities covered, in whole or in part, by the Association, provided that, upon receipt of any such amounts, the Association shall be obliged to pay to the beneficiary under the policy, contracts, or annuity on account of which the amounts were paid a portion of the amount equal to the lesser of:
  - 1. The amount received by the Association.
  - 2. The excess of the amount received by the Association over the amount equal to the benefits paid by the Association on account of the policy, contracts, or annuity less the retention of the insurer applicable to the loss or event.
- c. Within 30 days following the Association's election (the "election date"), the Association and each reinsurer under contracts assumed by the Association shall calculate the net balance due to or from the Association under each reinsurance contract as of the election date with respect to policies, contracts, or annuities covered, in whole or in part, by the Association, which calculation shall give full credit to all items paid by either the member insurer or its receiver or the reinsurer prior to the election date. The reinsurer shall pay the receiver any amounts due for losses or events prior to the date of the order of liquidation, subject to any set-off for premiums unpaid for periods prior to the date, and the Association or reinsurer shall pay any remaining balance due the other, in each case within five days of the completion of the aforementioned calculation. Any disputes over the amounts due to either the Association or the reinsurer shall be resolved by arbitration pursuant to the terms of the affected reinsurance contracts or, if the contract contains no arbitration clause, as otherwise provided by law. If the receiver has received any amounts due the Association pursuant to subdivision (2) of this subsection, the receiver shall remit the same to the Association as promptly as practicable.
- d. If the Association or receiver, on the Association's behalf, within 60 days of the election date, pays the unpaid premiums due for periods both before and after the election date that relate to policies, contracts, or annuities covered, in whole or in part, by the Association, the reinsurer shall not be entitled to terminate the reinsurance contracts for failure to pay premium insofar as the reinsurance contracts relate to policies, contracts, or annuities covered, in whole or in part, by the

Association, and shall not be entitled to set off any unpaid amounts due under other contracts, or unpaid amounts due from parties other than the Association, against amounts due the Association.

- (4) During the period from the date of the order of liquidation until the election date or, if the election date does not occur, until 180 days after the date of the order of liquidation, neither the Association nor the reinsurer shall have any rights or obligations under reinsurance contracts that the Association has the right to assume under this subsection, whether for periods prior to or after the date of the order of liquidation; and the reinsurer, the receiver, and the Association shall, to the extent practicable, provide each other data and records reasonably requested; provided that once the Association has elected to assume a reinsurance contract, the parties' rights and obligations shall be governed by this subsection.
- (5) If the Association does not elect to assume a reinsurance contract by the election date pursuant to this subsection, the Association shall have no rights or obligations, in each case for periods both before and after the date of the order of liquidation, with respect to the reinsurance contract.
- (6) When policies, contracts, or annuities, or covered obligations with respect thereto, are transferred to an assuming insurer, reinsurance on the policies, contracts, or annuities may also be transferred by the Association, in the case of contracts assumed under this subsection, subject to the following:
  - a. Unless the reinsurer and the assuming insurer agree otherwise, the reinsurance contract transferred shall not cover any new policies of insurance, contracts, or annuities in addition to those transferred.
  - b. The obligations described in this subsection shall no longer apply with respect to matters arising after the effective date of the transfer.
  - c. Notice shall be given in writing, return receipt requested, by the transferring party to the affected reinsurer not less than 30 days prior to the effective date of the transfer.
- (7) The provisions of this subsection shall supersede the provisions of any state law or of any affected reinsurance contract that provides for or requires any payment of reinsurance proceeds, on account of losses or events that occur in periods after the date of the order of liquidation, to the receiver of the insolvent insurer or any other person. The receiver shall remain entitled to any amounts payable by the reinsurer under the reinsurance contracts with respect to losses or events that occur in periods prior to the date of the order of liquidation, subject to applicable setoff provisions.
- (8) Except as otherwise provided in this subsection, nothing in this subsection shall alter or modify the terms and conditions of any reinsurance contract. Nothing in this subsection shall abrogate or limit any rights of any reinsurer to claim that it is entitled to rescind a reinsurance contract. Nothing in this subsection shall give a policyholder, contract owner, enrollee, certificate holder, or beneficiary an independent cause of action against a reinsurer that is not otherwise set forth in the reinsurance contract. Nothing in this subsection shall limit or affect the Association's rights as a creditor of the estate against the assets of the estate. Nothing in this subsection shall apply to reinsurance agreements covering property or casualty risks.

(v) The Board shall have discretion and may exercise reasonable business judgment to determine the means by which the Association is to provide the benefits of this Article in an economical and efficient manner.

(w) Where the Association has arranged or offered to provide the benefits of this Article to a covered person under a plan or arrangement that fulfills the Association's obligations under this Article, the person shall not be entitled to benefits from the Association in addition to or other than those provided under the plan or arrangement.

(x) Venue in a suit against the Association arising under this Article shall be in the Superior Court of Wake County. The Association shall not be required to give an appeal bond in an appeal that relates to a cause of action arising under this Article. (1991, c. 681, s. 56; c. 720, s. 94; 2013-136, s. 2; 2018-120, s. 1.1(f).)